MINNESOTA DEPARTMENT OF COMMERCE

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

Bulletin 98-3
Issued this 16th day of October, 1998

To: ALL COMPANIES WRITING CROP HAIL INSURANCE IN MINNESOTA

This bulletin supersedes bulletin 97-7 and reminds all crop hail insurers of the requirements of Minnesota Statute 70A.04, subdivision 1, which states, "rates shall not be excessive, inadequate or unfairly discriminatory, nor shall an insurer use rates to engage in unfair price competition." In making your filing for the 1999 season, follow these guidelines:

1. Companies must file new rates for the 1999 season, and no new business may be written until your new rates are effective. All data must be documented and filed to justify your rates. Filings will be required to be filed electronically for the 1999 season. By separate mail your company may have already received or will be receiving a new suggested electronic format. The format is in draft form and the department asks for your comments. Once we have received the industry input the department intends to do a separate bulletin in November. The filings must be in our office prior to March 1, 1999.

2. Your filing must use the 1998 NCIS final average loss costs with catastrophe by township (FALC with catastrophe), or loss costs developed by using meaningful statistics from a large data base for a minimum of 20 years. Your rates should not be limited, neither capped nor cupped, based on a prior year's rates. Companies using the NCIS FALC will be allowed to adjust the NCIS FALC if their previous experience for a minimum of ten years compared to NCIS FALC for the same period justifies it. Companies using their own experience cannot deviate, either up or down, more than 10% from the NCIS FALC. Companies with a minimum of ten years experience may determine and use their own crop and policy form factors. If you modify the NCIS FALC or use policy form or crop factors other than those filed by the NCIS, you must provide convincing justification signed by a member of the Casualty Actuarial Society. The only exceptions are low liability areas and limitations by county as explained in paragraphs 3, 4 and 5.

3. If a township is a low liability township as determined by NCIS data and defined in item 6, page 3, Exhibit B of the 1998 NCIS Final Average Loss Cost Filing, you may judgmentally modify the FALC with catastrophe for that township. This is to permit you to correct situations where the rate in a low liability area would otherwise be out of line with the rates of adjacent townships. Your filing must identify all townships where you do this.

4. The 1998 NCIS Final Average Loss Cost Filing sets wheat FALCs at 1.50 times corn FALCs in counties where the total wheat liability is less than 1,250,000, provided that there is adequate corn liability. In counties with wheat liability greater than 1,250,000 the NCIS calculates wheat FALCs using wheat experience alone. (See item 7, page 3, Exhibit B of the 1998 NCIS Final Average Loss Cost Filing for an explanation of the NCIS procedure.) At your option you may extend this NCIS low liability procedure for wheat FALCs to counties where wheat liability is up to 10,000,000 provided that corn liability exceeds 10,000,000. (See pages 9 and 10, Exhibit B of the 1998 NCIS Final Average Loss Cost Filing for a list of wheat and corn liabilities by county.) For example, the wheat liability for Blue Earth County is 5,472,904 and the corn liability is 303,782,253. The NCIS calculates the wheat FALCs in Blue Earth County using the wheat experience alone. You may use the wheat FALCs provided by the NCIS for Blue Earth County if you wish, or, if you prefer, you may set the wheat FALCs equal to 1.50 times the corn FALCs in that county. Your filing must identify all counties where you choose this option to deviate from the NCIS FALCs. In counties where the wheat liability exceeds 10,000,000, you must use the NCIS wheat FALCs.

5. You may use minimum and maximum FALC with catastrophe by county. Your filing must specify each minimum and maximum, and the minimum and maximum must be balanced within a county; that is, the expected effect in a county must be revenue neutral compared to what the rates would be without a minimum and maximum.

6. You must include a three year expense statement itemizing Production Expenses; Taxes, Licenses and Fees; General Expenses; Loss Adjusting Expenses; Other Expenses; Anticipated Underwriting Profit and Contingencies.

7. The formula for calculating the base rate is:

   Base Rate = NCIS FALC/(1.00-(Expense Load plus Anticipated Profit))

If you use your own FALC experience as explained in item 2, you should replace NCIS FALC in the fonnula with your own experience. You may separate fixed from variable expenses, but if you do so, you must provide an actuarial analysis that identifies the different categories of expenses and demonstrates that the aggregate premium will be unchanged by the separation. If you use an ALR that increases as the FALC decreases, for example, you are implicitly separating fixed from variable expenses, and you must provide an actuarial analysis to justify the different ALRs.

Your filing must clearly demonstrate how to generate your rates from the NCIS FALC with catastrophe. The filing must provide examples of rate calculations with sufficient clarity so that a reader of the filing can reproduce any rate found In the filing by applying your formulas to the NCIS FALCs.

8. DISCOUNTS:

   A. Cash discounts may not exceed 3% unless a higher discount can be justified. The cash must be paid by July 1 of the crop season to qualify for a 3% discount. Cash paid by August 1 can qualify a policy for a 2.5% discount. For a policy written after July 1 with a 3% discount, the cash must accompany the application to the processing office to qualify for the discount.

   B. Claim-free discounts for crop hail coverage cannot be actuarially justified, so these discounts will not be allowed.

   C. Unless actuarially justified, a discount will not be allowed on crop hail premiums if a Multi-Peril policy (MPCI) is involved.

   D. Large volume discounts will be allowed on a graduated scale, but only to an extent justified by specific expense savings.

   E. Any other discounts must be actuarially justified and submitted over the signature of a member of the Casualty Actuarial Society.

9. Indicate in the filing what percentage your rates changed from the prior year.

10. Do not file MPCI rates or forms, either as a formal filing or a courtesy filing.

David B. Gruenes, Commissioner